

**CITY OF ESSEX**

**INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2010**

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**City of Essex**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Russell Hilker	Mayor	January 2010
Rick Dailey	Council Member	January 2010
Marian Durfey	Council Member	January 2010
Calvin Kinney	Council Member	January 2012
James Long	Council Member	January 2012
Keith York	Council Member	January 2012
Lisa Royer	City Clerk	Indefinite

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(After January 2010)</b>		
Russell Hilker	Mayor	January 2014
Calvin Kinney	Council Member	January 2012
James Long	Council Member	January 2012
Keith York	Council Member	January 2012
Rick Dailey	Council Member	January 2014
Marian Durfey	Council Member	January 2014
Lisa Royer	City Clerk	Indefinite

**City of Essex**



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

December 21, 2010

Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Essex, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Essex's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Essex as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

December 21, 2010  
City of Essex  
Independent Auditors' Report

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2010 on our consideration of the City of Essex's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Essex's basic financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the fourth preceding paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Schroer & Associates, P.C.*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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City of Essex provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities were approximately \$805,000. Property taxes were approximately \$171,000 and intergovernmental receipts were \$411,000.
- Disbursements were approximately \$897,000. Public safety, community and economic development, and general government were \$216,000, \$333,000 and 125,000, respectively.
- The City's total cash basis net assets decreased 2.5%, or approximately \$9,000, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities decreased approximately \$61,000, and the assets of the business type activities increased by approximately \$52,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development and general government. Property tax and state grants finance most of these activities.
- Business Type Activities include the waterworks, electric system and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, and 4) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, sewer, landfill and deposit funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from \$177,000 to \$116,319. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		Year Ended June 30, 2010
Receipts and transfers:		
Program receipts:		
Charges for service	\$	129
Operating grants, contributions and restricted interest		427
General receipts:		
Property tax		171
Tax increment financing		20
Local option sales tax		53
Grants and contributions not restricted to specific purpose		1
Unrestricted investment earnings		2
Other		5
Note proceeds		28
Total receipts and transfers		<u>836</u>
Disbursements:		
Public safety		216
Public works		111
Culture and recreation		78
Community and economic development		333
General government		125
Debt service		34
Total disbursements		<u>897</u>
Decrease in cash basis net assets		(61)
Cash basis net assets beginning of year		<u>177</u>
Cash basis net assets end of year	\$	<u>116</u>

Total receipts for the City of Essex governmental activities was \$835,561.

The cost of all governmental activities this year was \$897,242. However, as shown in the Statement of Activities and Net Assets the amount taxpayers ultimately financed for these activities was only \$340,787 because some of the cost was paid by those directly benefited from the programs, \$129,387, or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest \$427,068. The City paid the remaining "public benefit" portion of governmental activities with approximately \$171,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		Year Ended June 30, 2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$	102
Sewer		57
Garbage		83
General receipts:		
Capital grants		211
Other general receipts		8
Note proceeds		55
Total receipts		<u>516</u>
Disbursements and transfers:		
Water		87
Sewer		296
Landfill		81
Total disbursements and transfers		<u>464</u>
Increase in cash basis net assets		52
Cash basis net assets beginning of year		<u>153</u>
Cash basis net assets end of year	\$	<u>205</u>

Total business type activities receipts for the fiscal year were \$516,453. The cash balance increased by approximately \$52,000 from the prior year. Total disbursements for the fiscal year were \$464,000.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Essex completed the year, its governmental funds reported a combined fund balance of \$321,261, a decrease of \$8,430 under last year's total of \$329,691. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$23,874 from the prior year to \$78,769. This decrease was due to a local match of \$30,000 expended for the CDBG Housing Rehabilitation Grant.
- The Road Use Tax Fund cash balance increased by \$5,415 to \$41,007 during the fiscal year.
- The Employee Benefits Fund decreased by \$8,058 to \$22,026 due to a 29% increase in health insurance premiums effective April 1, 2010 (after budget was adopted) and an increase from \$35,594 in municipal insurance coverage to \$42,798 payable April 1, 2010 (after budget was adopted).

### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$21,551 to \$128,767 due to a decrease in repairs/maintenance/distribution expenses the past 2 fiscal years and a rate increase in May of 2009, reflecting on July 1, 2009 bills producing an additional \$12,900 in revenues. Rate increase was done to create funding for future replacement of water tower.
- The Sewer Fund cash balance increased by \$27,353 to \$30,377, due to a rate increase in May 2009, reflecting on July 1, 2009 bills producing an additional \$10,000 and receipts vs. expenses (reimbursement time line) in CDBG transactions. Rate increase was done due to \$55,000 sewer bond passed for local share of CDBG.
- The Garbage Fund increased \$3,347 to \$45,798 due to rate increase in May 2009, reflecting on July 1, 2009 bills recreating additional revenues. Rate increase was done to create funding for a new garbage truck and a tonnage rate increase at the landfill.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget one time. The amendment resulted in an increase in operating disbursements of \$678,465 related to Federal CDBG grant monies for Housing Rehabilitation (\$330,000) and Sanitary Sewer Improvements (\$316,000) were received and expended for projects relating to the 2008 Flood.

### **DEBT ADMINISTRATION**

At June 30, 2010, the City had \$350,179 in long term debt compared to \$332,175 last year.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

City of Essex's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates, and fees that will be charged for various City activities. Major items addressed in the budget included increased maintenance on drainage ditches out-skirting the town, increased cost in municipal insurance premiums, increasing rates of employee benefits, painting of water tower and street repairs and improvements.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lisa Royer, City Clerk, P.O. Box 428, Essex, Iowa.

## **Basic Financial Statements**

City of Essex  
Statement of Activities and Net Assets – Cash Basis  
As of and for the year ended June 30, 2010

	<u>Disbursements</u>	<u>Program</u> Charges for Service
<b>Functions/Programs:</b>		
Governmental activities:		
Public safety	\$ 215,681	91,890
Public works	110,903	17,743
Culture and recreation	78,350	13,476
Community and economic development	332,909	-
General government	124,878	6,278
Debt service	34,521	-
Total governmental activities	<u>897,242</u>	<u>129,387</u>
Business type activities:		
Water	87,739	102,120
Sewer	295,941	56,919
Garbage	80,522	83,417
Total business type activities	<u>464,202</u>	<u>242,456</u>
Total	<u>\$ 1,361,444</u>	<u>371,843</u>

**General Receipts:**

Property tax levied for:  
    General purposes  
    Employee benefits  
Tax increment financing  
Local option sales tax  
Grants and contributions not restricted to specific purpose  
Unrestricted interest on investments  
Miscellaneous  
Note proceeds  
Sale of assets  
    Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets, beginning of year, as restated

Cash basis net assets, end of year

**Cash Basis Net Assets**

Restricted:  
    Nonexpendable:  
        Cemetery perpetual care  
    Expendable:  
        Streets  
        Employee benefits  
Unrestricted

Total cash basis net assets

See notes to financial statements

Receipts		Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
23,495	-	(100,296)	-	(100,296)
90,712	-	(2,448)	-	(2,448)
8,604	-	(56,270)	-	(56,270)
293,691	-	(39,218)	-	(39,218)
10,566	-	(108,034)	-	(108,034)
-	-	(34,521)	-	(34,521)
427,068	-	(340,787)	-	(340,787)
-	-	-	14,381	14,381
-	211,174	-	(27,848)	(27,848)
-	-	-	2,895	2,895
-	211,174	-	(10,572)	(10,572)
427,068	211,174	(340,787)	(10,572)	(351,359)
		\$ 128,509	-	128,509
		42,796	-	42,796
		19,961	-	19,961
		53,038	-	53,038
		623	-	623
		2,406	53	2,459
		1,273	7,770	9,043
		28,000	55,000	83,000
		3,500	-	3,500
		280,106	62,823	342,929
		(60,681)	52,251	(8,430)
		177,000	152,691	329,691
		\$ 116,319	204,942	321,261
		\$ 3,662	-	3,662
		41,007	-	41,007
		22,026	-	22,026
		49,624	204,942	254,566
		\$ 116,319	204,942	321,261

City of Essex  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2010

		Special Revenue	
	General	Road Use Tax	Employee Benefits
Receipts:			
Property tax	\$ 119,713	-	41,401
Tax increment financing	-	-	-
Other city tax	5,432	-	1,395
Licenses and permits	325	-	-
Use of money and property	3,975	-	-
Intergovernmental	329,465	82,001	-
Charges for service	110,673	-	-
Special assessment	17,743	-	-
Miscellaneous	16,568	-	-
Total receipts	603,894	82,001	42,796
Disbursements:			
Operating:			
Public safety	189,076	-	14,676
Public works	14,587	76,586	3,318
Culture and recreation	57,880	-	4,631
Community and economic development	332,909	-	-
General government	90,704	-	28,229
Debt service	-	-	-
Total disbursements	685,156	76,586	50,854
Excess (deficiency) of receipts over (under) disbursements	(81,262)	5,415	(8,058)
Other financing sources:			
Note proceeds	28,000	-	-
Sale of capital assets	3,500	-	-
Operating transfers in	40,888	-	-
Operating transfers out	(15,000)	-	-
Total other financing sources (uses)	57,388	-	-
Net change in cash balances	(23,874)	5,415	(8,058)
Cash balances, beginning of year	78,769	35,592	30,084
Cash balances, end of year	\$ 54,895	41,007	22,026
<b>Cash Basis Fund Balances</b>			
Unreserved:			
General fund	\$ 54,895	-	-
Special revenue funds	-	41,007	22,026
Permanent fund	-	-	-
Total cash basis fund balances	\$ 54,895	41,007	22,026

See notes to financial statements

**Exhibit B**

Other Nonmajor Governmental Funds	Total
3,254	164,368
19,961	19,961
53,148	59,975
-	325
7	3,982
-	411,466
-	110,673
-	17,743
-	16,568
<u>76,370</u>	<u>805,061</u>
11,929	215,681
16,412	110,903
15,839	78,350
-	332,909
5,945	124,878
<u>34,521</u>	<u>34,521</u>
<u>84,646</u>	<u>897,242</u>
(8,276)	(92,181)
-	28,000
-	3,500
34,721	75,609
<u>(60,609)</u>	<u>(75,609)</u>
<u>(25,888)</u>	<u>31,500</u>
(34,164)	(60,681)
<u>32,555</u>	<u>177,000</u>
<u>(1,609)</u>	<u>116,319</u>
-	54,895
(5,271)	57,762
<u>3,662</u>	<u>3,662</u>
<u>(1,609)</u>	<u>116,319</u>



City of Essex  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2010

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating receipts:				
Charges for service	\$ 102,120	56,919	83,417	242,456
Miscellaneous	7,170	201	399	7,770
Total operating receipts	109,290	57,120	83,816	250,226
Operating disbursements:				
Business type activities	67,476	40,997	80,522	188,995
Excess of operating receipts over operating disbursements	41,814	16,123	3,294	61,231
Nonoperating receipts (disbursements)				
Intergovernmental	-	211,174	-	211,174
Interest on investments	-	-	53	53
Note proceeds	-	55,000	-	55,000
Debt service	(20,263)	(1,528)	-	(21,791)
Capital projects	-	(253,416)	-	(253,416)
Total nonoperating receipts (disbursements)	(20,263)	11,230	53	(8,980)
Net change in cash balances	21,551	27,353	3,347	52,251
Cash balances beginning of year	107,216	3,024	42,451	152,691
Cash balances end of year	\$ 128,767	30,377	45,798	204,942
<b>Cash Basis Fund Balances</b>				
Unreserved	\$ 128,767	30,377	45,798	204,942

See notes to financial statements

**City of Essex**

City of Essex  
Notes to Financial Statements  
June 30, 2010

**NOTE (1) Summary of Significant Accounting Policies**

The City of Essex is a political subdivision of the State of Iowa located in Page County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer and landfill utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Essex has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Page County Assessor's Conference Board, Page County Landfill Association, and Page County E911 Board.

City of Essex  
Notes to Financial Statements  
June 30, 2010

**NOTE (1) Summary of Significant Accounting Policies - Continued**

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

City of Essex  
Notes to Financial Statements  
June 30, 2010

**NOTE (1) Summary of Significant Accounting Policies - Continued**

**B. Basis of Presentation - Continued**

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefit Fund is used to account for property taxes levied to pay employee benefits.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Garbage Fund accounts for the operation of the City's solid waste disposal.

**C. Measurement Focus and Basis of Accounting**

The City of Essex maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

City of Essex  
Notes to Financial Statements  
June 30, 2010

**NOTE (1) Summary of Significant Accounting Policies - Continued**

**C. Measurement Focus and Basis of Accounting - Continued**

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the community and economic development function.

**E. Property Tax Calendar**

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2008, to compute the amounts which became liens on property on July 1, 2009. These taxes were due and payable in two installments on September 30, 2009 and March 31, 2010, at the Page County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

**NOTE (2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$321,261.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) No. 3, as amended by Statement No. 40.

City of Essex  
Notes to Financial Statements  
June 30, 2010

**NOTE (2) Cash and Pooled Investments – Continued**

Interest rate risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

**NOTE (3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation notes, equipment debt and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes Principal	Equipment Debt Principal	Revenue Notes Principal	Total Principal
2011	\$ 45,000	25,590	5,000	75,590
2012	30,000	26,031	5,000	61,031
2013	35,000	6,681	5,000	46,681
2014	35,000	5,809	5,000	45,809
2015	40,000	6,068	5,000	51,068
2016-2020	40,000	-	25,000	65,000
2021	-	-	5,000	5,000
	<u>\$ 225,000</u>	<u>70,179</u>	<u>55,000</u>	<u>350,179</u>

Year Ending June 30,	General Obligation Notes Interest	Equipment Debt Interest	Revenue Notes Interest	Total Interest
2011	\$ 10,108	2,013	2,283	14,404
2012	8,188	1,410	2,075	11,673
2013	6,875	785	1,868	9,528
2014	5,315	534	1,660	7,509
2015	3,730	273	1,453	5,456
2016-2020	1,880	-	4,151	6,031
2021	-	-	208	208
	<u>\$ 36,096</u>	<u>5,015</u>	<u>13,698</u>	<u>54,809</u>

Interest paid on long term debt during the year totaled \$14,613.

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund. However, \$20,263 of general obligation debt was paid by the Enterprise, Water Fund and \$2,599 was paid by the Special Revenue, Road Use Tax Fund during the year ended June 30, 2010.

The City has a legal debt limit of approximately \$1,220,000, which was not exceeded during the year ended June 30, 2010.

City of Essex  
Notes to Financial Statements  
June 30, 2010

**NOTE (3) Bonds and Notes Payable - Continued**

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$55,000 of sewer revenue notes issued in September 2009. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2021. Annual principal and interest payments on the notes are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$68,698. For the current year, principal and interest paid and total customer net receipts were \$1,528 and \$16,123, respectively.

The resolution providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a sewer revenue note sinking account within the Sewer Fund for the purpose of making the note principal and interest payments when due.

The City has not established the sinking account required by the resolution.

**NOTE (4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual salary and the City is required to contribute 6.65% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2010 was \$14,480, equal to the required contribution for the year.



City of Essex  
Notes to Financial Statements  
June 30, 2010

**NOTE (5) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 4 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$463 for single coverage and \$1,158 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, there were no plan members eligible for benefits.

**NOTE (6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2010, primarily relating to the General Fund was \$8,423. This liability has been computed based on rates of pay in effect at June 30, 2010.

**NOTE (7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue Fund: Local Option Sales Tax	\$ 40,888
Debt Service	General Fund	15,000
	Special Revenue Fund: Urban Renewal Tax Increment	19,721
		<u>34,721</u>
		\$ <u>75,609</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

City of Essex  
Notes to Financial Statements  
June 30, 2010

**NOTE (8) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE (9) Deficit Balance**

The Special Revenue Fund, Local Option Sales Tax Account had a deficit balance of \$2,381 at June 30, 2010. The deficit will be eliminated with the collections of local option sales tax.

The Special Revenue Fund, Emergency Account had a deficit balance of \$3,130 at June 30, 2010. The deficit will be eliminated with property tax collections.

**NOTE (10) Construction Commitments**

The City has the following contract commitments as of June 30, 2010:

	Contracted Amount	Paid to Date	Remaining Commitment	Retainage Payable
Sewer Project:	\$			
Engineer	40,100	40,100	-	-
Excavating	185,015	185,015	-	-
Mobil Crushing	18,000	18,000	-	-
Pump	44,116	-	44,116	-
			44,116	-
Housing Contracts:				
Construction	314,793	290,568	24,225	-
			\$ 68,341	-

**NOTE (11) Subsequent Events**

In July 2010, the City approved a contract for demolition of a building for \$40,000.

In July 2010, The City approved a purchase of a rural tanker for \$178,451, to be paid with a \$171,000 homeland security grant award.

### **Required Supplementary Information**

City of Essex  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 164,368	-
Tax increment financing	19,961	-
Other city tax	59,975	-
Licenses and permits	325	-
Use of money and property	3,982	53
Intergovernmental	411,466	211,174
Charges for service	110,673	242,456
Special assessments	17,743	-
Miscellaneous	16,568	7,770
Total receipts	<u>805,061</u>	<u>461,453</u>
Disbursements:		
Public safety	215,681	-
Public works	110,903	-
Culture and recreation	78,350	-
Community and economic development	332,909	-
General government	124,878	-
Debt service	34,521	-
Business type activities	-	464,202
Total disbursements	<u>897,242</u>	<u>464,202</u>
Excess (deficiency) of receipts over (under) disbursements	(92,181)	(2,749)
Other financing sources, net	<u>31,500</u>	<u>55,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(60,681)	52,251
Balances, beginning of year	<u>177,000</u>	<u>152,691</u>
Balances, end of year	<u>\$ 116,319</u>	<u>204,942</u>

Total	Budgeted Amounts		Final to Net Variance
	Original	Final	
164,368	163,543	163,543	825
19,961	4,521	20,000	(39)
59,975	67,628	67,628	(7,653)
325	1,550	1,550	(1,225)
4,035	8,416	8,416	(4,381)
622,640	143,176	710,738	(88,098)
353,129	405,870	405,870	(52,741)
17,743	-	-	17,743
24,338	45,688	45,688	(21,350)
1,266,514	840,392	1,423,433	(156,919)
215,681	225,833	234,883	19,202
110,903	101,685	112,875	1,972
78,350	96,549	101,774	23,424
332,909	-	330,000	(2,909)
124,878	120,450	127,450	2,572
34,521	37,120	37,120	2,599
464,202	240,370	556,370	92,168
1,361,444	822,007	1,500,472	139,028
(94,930)	18,385	(77,039)	(17,891)
86,500	-	55,000	31,500
(8,430)	18,385	(22,039)	13,609
329,691	210,493	210,493	119,198
321,261	228,878	188,454	132,807

See accompanying independent auditors' report

City of Essex  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board (GASB) Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$678,465. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the community and economic development function.

### **Other Supplementary Information**

City of Essex  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds  
Year ended June 30, 2010

	Special Revenue		
	Emergency	Local Option Sales Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 3,254	-	-
Tax increment financing	-	-	19,961
Other city tax	110	53,038	-
Use of money and property	-	-	-
Total receipts	3,364	53,038	19,961
Disbursements:			
Operating:			
Public safety	-	11,929	-
Public works	-	16,412	-
Culture and recreation	-	15,839	-
General government	-	5,945	-
Debt service	-	-	-
Total disbursements	-	50,125	-
Excess (deficiency) of receipts over (under) disbursements	3,364	2,913	19,961
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	(40,888)	(19,721)
	-	(40,888)	(19,721)
Net change in cash balances	3,364	(37,975)	240
Cash balances, beginning of year	(6,494)	35,594	-
Cash balances, end of year	\$ (3,130)	(2,381)	240
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	(3,130)	(2,381)	240
Permanent fund	-	-	-
Total cash basis fund balances	\$ (3,130)	(2,381)	240



Debt Service	Permanent Cemetery Perpetual Care	Total
-	-	3,254
-	-	19,961
-	-	53,148
-	7	7
-	7	76,370
-	-	11,929
-	-	16,412
-	-	15,839
-	-	5,945
34,521	-	34,521
34,521	-	84,646
(34,521)	7	(8,276)
34,721	-	34,721
-	-	(60,609)
34,721	-	(25,888)
200	7	(34,164)
(200)	3,655	32,555
-	3,662	(1,609)
-	-	(5,271)
-	3,662	3,662
-	3,662	(1,609)

See accompanying independent auditors' report

City of Essex  
Schedule of Indebtedness  
June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Essential corporate purpose	Jan 1, 2003	4.30-4.90%	\$ 195,000
Street construction	Aug 15, 2006	4.25-4.50%	240,000
Total			
Revenue notes:			
Sewer	Sept 30, 2009	4.15%	\$ 55,000
Equipment debt:			
Fire truck	Aug 9, 2002	0.00%	\$ 128,000
Skid loader	Mar 16, 2007	5.34%	32,701
2009 Silverado	Aug 31, 2009	4.50%	28,000
Total			

**Schedule 2**

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 115,000	-	15,000	100,000	5,263	-
155,000	-	30,000	125,000	6,720	-
<u>\$ 270,000</u>	<u>-</u>	<u>45,000</u>	<u>225,000</u>	<u>11,983</u>	<u>-</u>
\$ -	55,000	-	55,000	1,528	-
\$ 41,544	-	13,474	28,070	-	-
20,631	-	6,522	14,109	1,102	-
-	28,000	-	28,000	-	-
<u>62,175</u>	<u>28,000</u>	<u>19,996</u>	<u>70,179</u>	<u>1,102</u>	<u>-</u>

See accompanying independent auditors' report

City of Essex  
Bond and Note Maturities  
June 30, 2010

Year Ending June 30,	General Obligation Notes							
	Essential Corporate Purpose			Street Construction				
	Issued Jan 1, 2003			Issued Aug 15, 2006				
	Interest Rates	Amount		Interest Rates	Amount	Total		
2011	4.30%	\$	15,000	4.25%	\$	30,000	\$	45,000
2012	4.45%		15,000	4.30%		15,000		30,000
2013	4.60%		15,000	4.35%		20,000		35,000
2014	4.70%		15,000	4.40%		20,000		35,000
2015	4.80%		20,000	4.45%		20,000		40,000
2016	4.90%		20,000	4.50%		20,000		40,000
2017	-		-	-		-		-
2018	-		-	-		-		-
2019	-		-	-		-		-
2020	-		-	-		-		-
2021	-		-	-		-		-
		\$	100,000		\$	125,000	\$	225,000

Ending June 30,	Equipment Debt						
	Fire Truck		Skid Loader		2009 Silverado		Total
	Issued Aug 9, 2002		Issued Mar 16, 2007		Issued Aug 31, 2009		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2011	0.00%	\$ 13,474	5.34%	\$ 6,871	4.50%	\$ 5,245	\$ 25,590
2012	0.00%	13,474	5.34%	7,238	4.50%	5,319	26,031
2013	0.00%	1,122	-	-	4.50%	5,559	6,681
2014	-	-	-	-	4.50%	5,809	5,809
2015	-	-	-	-	4.50%	6,068	6,068
		\$ 28,070		\$ 14,109		\$ 28,000	\$ 70,179

Year Ending June 30,	<b>Revenue Notes</b>	
	Sewer	
	Issued Sept 30, 2009	
	Interest Rates	Amount
2011	4.15%	\$ 5,000
2012	4.15%	5,000
2013	4.15%	5,000
2014	4.15%	5,000
2015	4.15%	5,000
2016	4.15%	5,000
2017	4.15%	5,000
2018	4.15%	5,000
2019	4.15%	5,000
2020	4.15%	5,000
2021	4.15%	5,000
		<u>\$ 55,000</u>

See accompanying independent auditors' report

City of Essex  
Schedule of Expenditures of Federal Award  
Year ended June 30, 2010

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	08-HSG-059	\$ 294,687
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program	14.228	08-OT-004	250,903
Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management			
Division:			
Public Assistance Grants	97.036	FEMA-1877-DRIA	7,804
Total			\$ 553,394

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Essex. The City of Essex's financial statements are presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presents in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

See accompanying independent auditors' report

**City of Essex**



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

December 21, 2010

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit Performed  
in Accordance with *Government Auditing Standards*

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the remaining aggregate fund information of the City of Essex, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 21, 2010. Our report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting, as we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. Except as noted in the Independent Auditors' Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Essex's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Essex's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Essex's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Essex's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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City of Essex  
Independent Auditors' Report on  
Internal Control and Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Essex's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Essex's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Essex's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Essex and other parties to whom the City of Essex may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Essex during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schroer & Associates, P.C.*



Marilyn Schroer, CPA  
Diane McGrain, CPA  
Jim Menard, CPA

December 21, 2010

Independent Auditors' Report on Compliance with Requirements  
Applicable to Each Major Program and On Internal Control over  
Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Essex, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2010. The City of Essex's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Essex's management. Our responsibility is to express an opinion on the City of Essex's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Essex's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Essex's compliance with those requirements.

In our opinion, City of Essex complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

City of Essex  
Independent Auditors' Report on Compliance  
in Accordance with OMB Circular A-13

Internal Control Over Compliance

The management of City of Essex is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered City of Essex's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Essex's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-B-10 to be a material weakness.

City of Essex's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit City of Essex's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Essex and other parties to whom the City of Essex may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*Schroer & Associates, P.C.*

City of Essex  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

**Part I: Findings Related to the Financial Statements:**

- (a) Qualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Essex did not qualify as a low-risk auditee.

City of Essex  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES**

II-A-10     Segregation of Duties

Comment – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one person has control over each of the following areas for the City:

1. Accounting system – record keeping for the revenue cycle, expenditure/expense cycle and reporting.
2. Receipts – collecting, depositing, journalizing and posting.
3. Utilities – billing, collecting, posting and reconciliations.
4. Payroll – preparation and distribution.

Recommendation – We realize that with one office employee, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City should utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response – We will review our procedures to see where we can increase our oversight reviews.

Conclusion – Response accepted.

II-B-10     Financial Reporting

Comment – During the audit we noted that the note proceeds used to purchase a vehicle were not recorded in the financial records. Adjustments were subsequently made to properly include the amounts.

Recommendation – The City should implement procedures to include off the book transactions in the financial records.

Response – We will watch for these transactions in the future.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE**

No matters were reported.

City of Essex  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE**

No matters were reported.

**INTERNAL CONTROL DEFICIENCIES**

**CFDA Number 14.228: Community Development Block Grants/State's Program  
and Non-Entitlement Grants in Iowa**

**Pass-through Agency Numbers: 08-HSG-059 and 08-OT-004**

**Federal Award Year: 2010**

**U.S. Department of Housing and Urban Development**

**Passed through the Iowa Department of Economic Development**

- III-B-10 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-10

City of Essex  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

**Part IV: Findings Related to the Financial Statements:**

IV-A-10    Certified Budget

Comment – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states in part that “public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended sufficiently in the future, if applicable.

Conclusion – Response accepted.

IV-B-10    Entertainment Expense – We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-10    Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-10    Business Transactions – We noted no business transactions between the City and City officials or employees.

IV-E-10    Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-10    Council Minutes

Comment – We noted one out of 60 transactions tested was not included in the listing for approval of claims in Council minutes. Although minutes for council proceedings were published, they were not always published within 15 days of the meeting, as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should monitor procedures to insure all claims are properly approved. All minutes should be published timely.

Response – We will review our procedures and make the publications as required.

Conclusion – Response accepted.

City of Essex  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

**Part IV: Other Findings Related to Statutory Reporting - Continued:**

IV-G-10    Deposits and Investments

Comment – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy. However, the City uses a depository not included in its depository resolution.

Recommendation – The City should amend its depository resolution to include all depositories used.

Response – We will do this.

Conclusion – Response accepted.

IV-H-10    Revenue Notes

Comment – The City has not established a sewer reserve sinking account as required by the provisions of the sewer revenue note resolution.

Recommendation – The City should establish the sinking account and make the monthly transfers required.

Response – We will do this.

Conclusion – Response accepted.

IV-I-10    Payment of General Obligation Bonds

Comment – Certain general obligation bonds were paid from the Enterprise, Water Fund and the Special Revenue, Road Use Tax Fund. Chapter 384.4 of the Code of Iowa states, in part "Monies pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund."

Recommendation – The City should transfer from these funds to the Debt Service Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.



City of Essex  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

**Part IV: Other Findings Related to Statutory Reporting - Continued:**

IV-J-10    Excess Balances

Comment – The cash balance in the Enterprise Fund, Water Account, at June 30, 2010 was in excess of the disbursements made from the fund during the year.

Recommendation – The City should consider the necessity of maintaining the excess balance, and where financially feasible, consider reducing the balance in an orderly manner through revenue reductions.

Response – We will review this further.

Conclusion – Response accepted.

IV-K-10    Financial Condition

Comment – As previously noted, the Special Revenue Funds, Local Option Sales Tax and Emergency Accounts, had deficit balances at June 30, 2010.

Recommendation – The City should monitor the activity in these accounts in order to eliminate the deficits.

Response – We will do this.

Conclusion – Response accepted.

IV-L-10    Mileage Reimbursements

Comment – Mileage reimbursements rates were paid in excess of the federal per diem rate.

Recommendation – Mileage reimbursements should not exceed the allowable amount provided by the IRS as provided by Chapter 70A.9 of the Code of Iowa. The City should be aware of changes in rates that are made.

Response – We will adjust our rate reimbursement to the amount allowed.

Conclusion – Response accepted.

City of Essex  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

**Part IV: Other Findings Related to Statutory Reporting - Continued:**

IV-M-10    Disbursements

Comment – The City received the front image only of electronically retained checks.

Recommendation – The City should request both the front and back images of checks in accordance with Chapter 554D.114(5) of the Code of Iowa.

Response – We will contact the bank to request this.

Conclusion – Response accepted.

IV-N-10    Tax Increment Financing Debt

Comment – The certification of debt qualifying for payment from TIF revenues in accordance with Chapter 403.19(5)(a) was filed with the County, but included only the total principal to be paid on the notes.

Recommendation – The debt certified should be amended to include the total interest required to be paid on the notes.

Response – We will do this.

Conclusion – Response accepted.

IV-O-10    Investment Interest

Comment – Interest on cemetery perpetual care is recorded in the Perpetual Care Fund.

Recommendation – Interest on cemetery perpetual care investments should be transferred and recorded in the General Fund to be used for cemetery operations in accordance with Chapter 5231.508 of the Code of Iowa.

Response – We will transfer the interest earned.

Conclusion – Response accepted.

IV-P-10    Cemetery Report

Comment – The annual report for the perpetual care cemetery was not filed with the Insurance Commissioner within four months following year end in accordance with Chapter 5231.813 of the Code of Iowa.

Recommendation – The City should file the report as noted.

Response – We will do this.

Conclusion – Response accepted.